

CHANGING NATURE OF THE PROPERTY TAX IN TENNESSEE

Presentation to the Joint Select Committee on
Business Taxes

November 6, 2007

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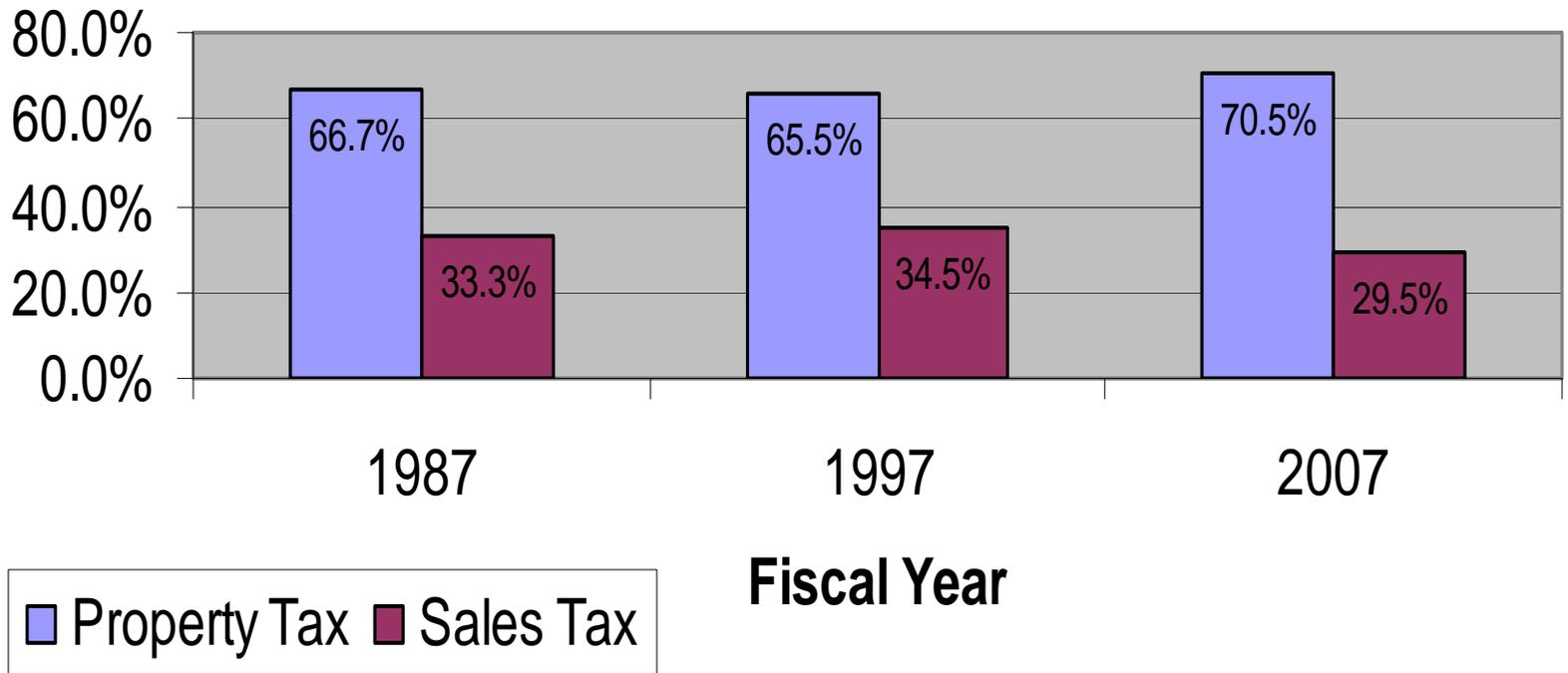
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Two Trends

- Increase in importance of property tax vs. local option sales tax
- Increase in importance of residential property vs. other classifications

Relative Importance of Property Taxes Versus Local Sales Taxes



Declining Importance of Local Option Sales Tax

- Over half of the counties are at or near the maximum rate cap of 2.75%
 - 14 at 2.5%
 - 38 at 2.75%
- Local and state sales tax base remains inelastic
- Absence of many services from the sales tax base while spending on services continues to grow both absolutely and as a share of total spending



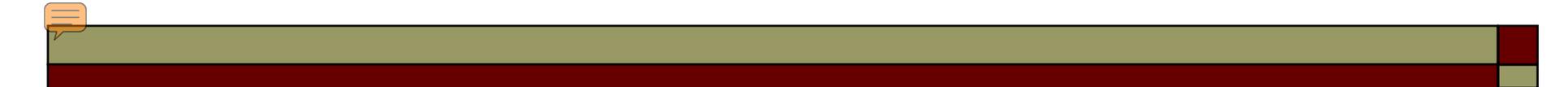
Declining Importance of Local Option Sales Tax

- Remote untaxed sales continue to grow while states wait on Congressional action to make such sales taxable
- Estimated 2008 state and local losses that range from \$600-\$958 million
 - Local loss alone of \$120-\$187 million
- Tennessee has postponed fully conforming to SSTP requirements



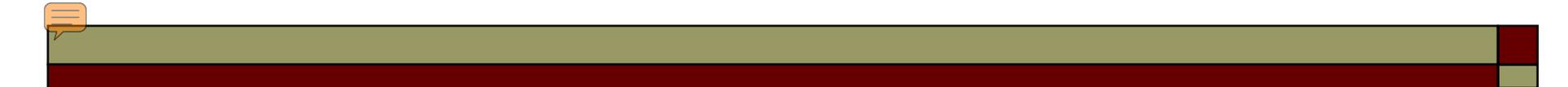
Comparative Property and Local Option Sales Taxes

Tax	Fiscal Year			%
	1987	1997	2007	Change 87-07
Est. Property Taxes	\$1,204,961,035	2,303,327,376	\$4,463,418,466	270.4%
Local Option Sales Taxes	\$602,816,417	\$1,211,006,308	\$1,867,110,705	209.7%
Total	\$1,807,777,452	\$3,514,333,684	\$6,330,529,171	250.2%
% Property Tax	66.7%	65.5%	70.5%	
% Local Option Sales Tax	33.3%	34.5%	29.5%	



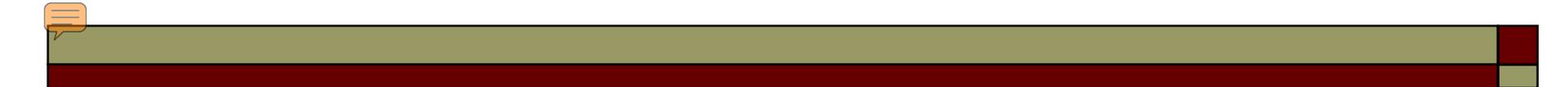
Importance of Property Tax for Counties

- FY 87:
 - Property tax revenue exceeded local option sales tax revenue in 93 counties
 - Importance varied from 89.5% (Moore County) to 37.9% (Sevier County)



Importance of Property Tax for Counties

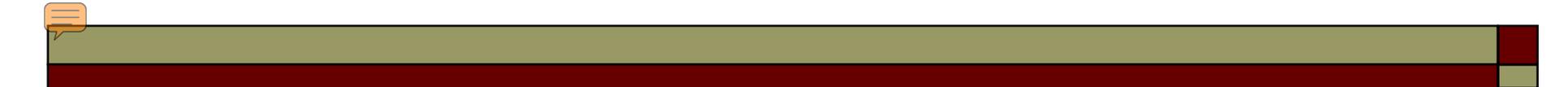
- FY 97:
 - Only Sevier County depended more on sales tax revenue than property tax revenue
 - Healthy increases in sales tax revenue between 1992 through 1997 resulted in property tax's share of combined revenues to drop in 50 counties (rise in 45 counties).



Importance of Property Tax for Counties

□ FY 07

- Only Sevier County depended more on sales tax revenue than property tax revenue
- Property tax revenue represented more than 70% of combined property plus sales tax revenue in forty-four counties, up from thirty-nine in 1997
- The property tax increased in importance relative to sales tax in sixty-one counties between 1997 and 2007



Increasing Pressures on Local Property Tax

- ✓ Decreasing potential of local option sales tax

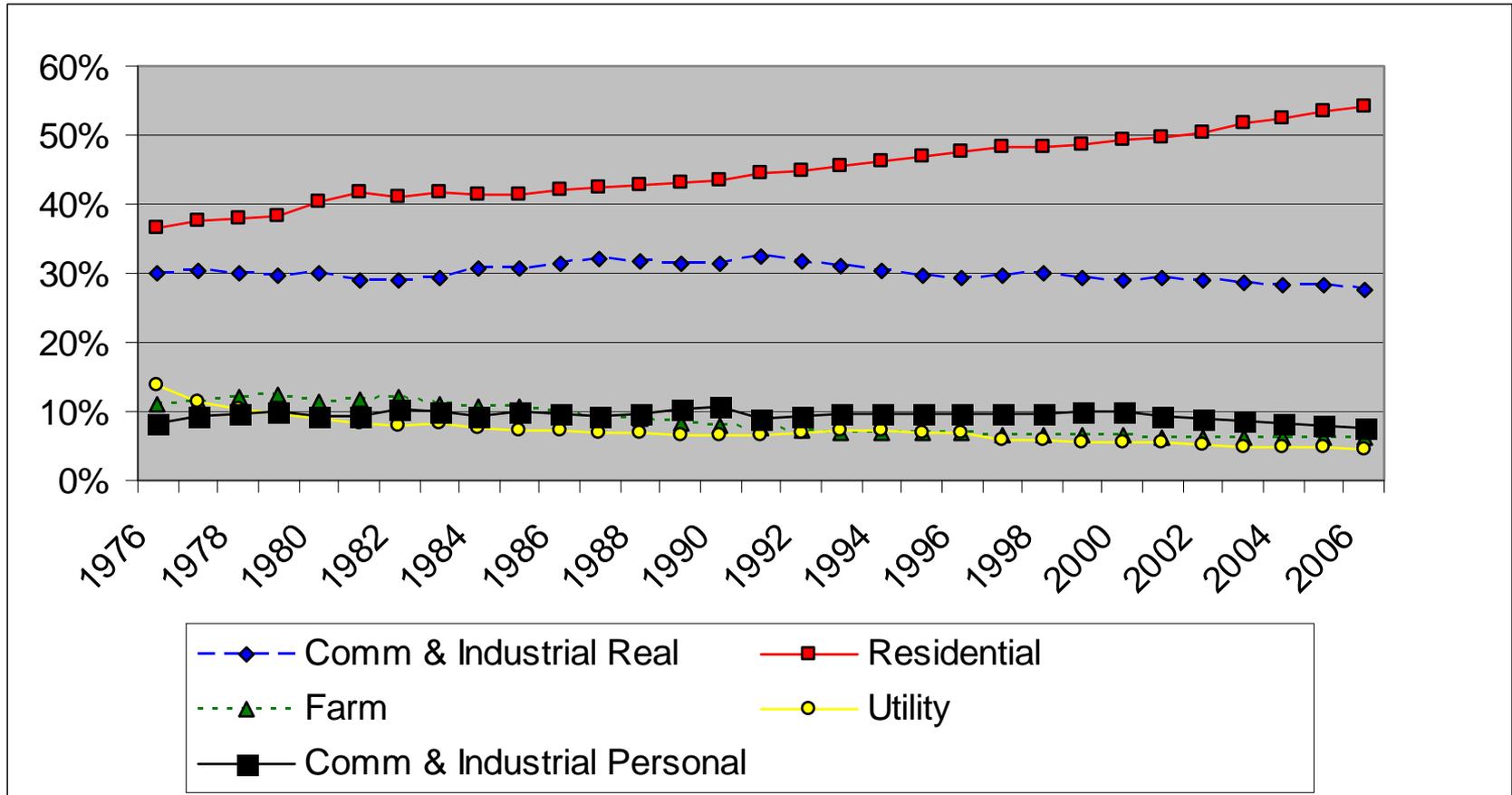
Other pressures:

- Limited alternative taxing authority
- Growing number of taxpayers over 65
- No significant change in unrestricted state aid to local governments
- No significant state circuit breaker program

Increasing Pressures on Local Property Tax

- Initial surge in state education aid (BEP) that reduced pressure on the property tax in many counties is over
- Increasing residential share of property tax base
 - 36.7% in 1976
 - 54.2% in 2006

Distribution of Assessments by Property Class, TN, 1976-2006



Percent Growth of Assessments by Property Class, TN, 1976-2006

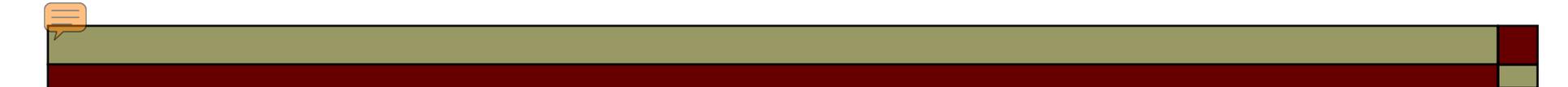
Real Property			Personal Property Assessment	Public Utility
Industrial & Commercial	Residential	Farm	Industrial & Commercial	State
848.70%	1424.50%	462.10%	832.30%	230.10%

Source: TN Comptroller of the Treasury



Why the Shift to Residential?

- Some possible contributing factors
 - Shift from manufacturing to service and knowledge economy
 - The housing boom
 - Greenbelt assessments
 - Reduction in taxes on utilities
 - Property tax abatements



Tax Abatements

- Tax abatements remove property from the county and municipal tax rolls
 - Diminishes the property tax base
 - Lowers tax capacity
- In 2002, tax abatements were estimated to have cost counties and municipalities approximately \$104.3 million in forgone revenues
 - Actual revenue loss undoubtedly higher because of under-reporting
 - Loss to county school systems was at least \$33 million
 - Accurate abatement information critical for determining tax capacity

How Tax Abatement Data Could be Improved: Some Suggestions

- 1. Ensure that all economic development agreements (EDAs) are filed with the Comptroller's office.*
- 2. Ensure that annual reports by lessees are made and properly filed.*
- 3. Extend the same reporting requirements to all entities that grant tax abatements.*
- 4. Improve cost-benefit accountability.*
- 5. Extend to all counties the requirement that county governments be parties to the negotiation of EDAs that provide for taxes, or payments in lieu of taxes, that are less than the amount of county property taxes.*
- 6. Increase the use of "claw back" provisions.*

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**Table 1 Relative Importance of Sales versus Property Taxes
(as a % of Combined Sales and Property Taxes)**

County	Fiscal 1987		Fiscal 1997		Fiscal 2007	
	Sales Tax	Property Tax	Sales Tax	Property Tax	Sales Tax	Property Tax
Anderson	26.1%	73.9%	33.1%	66.9%	30.7%	69.3%
Bedford	30.3%	69.7%	24.6%	75.4%	31.6%	68.4%
Benton	53.2%	46.8%	42.3%	57.7%	37.8%	62.2%
Bledsoe	24.3%	75.7%	30.2%	69.8%	19.3%	80.7%
Blount	39.1%	60.9%	36.4%	63.6%	29.5%	70.5%
Bradley	38.7%	61.3%	38.8%	61.2%	31.1%	68.9%
Campbell	35.0%	65.0%	36.1%	63.9%	34.6%	65.4%
Cannon	21.3%	78.7%	18.8%	81.2%	16.4%	83.6%
Carroll	33.1%	66.9%	32.4%	67.6%	33.1%	66.9%
Carter	30.1%	69.9%	31.5%	68.5%	32.1%	67.9%
Cheatham	25.0%	75.0%	24.0%	76.0%	25.2%	74.8%
Chester	32.3%	67.7%	37.7%	62.3%	36.5%	63.5%
Claiborne	33.0%	67.0%	32.7%	67.3%	25.5%	74.5%
Clay	14.5%	85.5%	13.7%	86.3%	29.3%	70.7%
Cocke	35.4%	64.6%	43.7%	56.3%	37.3%	62.7%
Coffee	39.5%	60.5%	35.9%	64.1%	31.2%	68.8%
Crockett	23.5%	76.5%	26.9%	73.1%	18.2%	81.8%
Cumberland	46.2%	53.8%	48.6%	51.4%	49.9%	50.1%
Davidson	39.9%	60.1%	38.8%	61.2%	29.0%	71.0%
Decatur	33.5%	66.5%	38.8%	61.2%	42.8%	57.2%
DeKalb	29.8%	70.2%	24.6%	75.4%	18.0%	82.0%
Dickson	46.7%	53.3%	38.4%	61.6%	36.0%	64.0%
Dyer	46.6%	53.4%	40.8%	59.2%	35.8%	64.2%
Fayette	25.5%	74.5%	21.6%	78.4%	22.4%	77.6%
Fentress	39.4%	60.6%	41.6%	58.4%	44.4%	55.6%
Franklin	44.9%	55.1%	28.0%	72.0%	25.5%	74.5%
Gibson	39.0%	61.0%	36.5%	63.5%	31.0%	69.0%
Giles	27.3%	72.7%	21.6%	78.4%	29.4%	70.6%
Grainger	20.2%	79.8%	31.3%	68.7%	24.1%	75.9%
Greene	27.4%	72.6%	36.9%	63.1%	37.7%	62.3%
Grundy	24.9%	75.1%	24.3%	75.7%	23.9%	76.1%
Hamblen	33.9%	66.1%	42.7%	57.3%	40.9%	59.1%
Hamilton	26.2%	73.8%	28.1%	71.9%	27.6%	72.4%
Hancock	27.4%	72.6%	20.6%	79.4%	17.6%	82.4%
Hardeman	39.9%	60.1%	30.7%	69.3%	30.7%	69.3%
Hardin	29.8%	70.2%	31.1%	68.9%	41.7%	58.3%
Hawkins	20.0%	80.0%	28.0%	72.0%	25.4%	74.6%
Haywood	22.8%	77.2%	23.6%	76.4%	22.3%	77.7%
Henderson	48.6%	51.4%	48.3%	51.7%	40.8%	59.2%
Henry	39.3%	60.7%	39.8%	60.2%	38.0%	62.0%
Hickman	25.1%	74.9%	24.7%	75.3%	21.6%	78.4%
Houston	31.8%	68.2%	28.6%	71.4%	22.7%	77.3%
Humphreys	28.7%	71.3%	29.1%	70.9%	32.0%	68.0%
Jackson	23.1%	76.9%	19.9%	80.1%	19.5%	80.5%
Jefferson	33.7%	66.3%	33.0%	67.0%	30.1%	69.9%

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County	Fiscal 1987		Fiscal 1997		Fiscal 2007	
	Sales Tax	Property Tax	Sales Tax	Property Tax	Sales Tax	Property Tax
Johnson	16.0%	84.0%	18.8%	81.2%	19.3%	80.7%
Knox	29.4%	70.6%	38.2%	61.8%	36.0%	64.0%
Lake	25.5%	74.5%	26.5%	73.5%	27.2%	72.8%
Lauderdale	34.4%	65.6%	36.2%	63.8%	27.4%	72.6%
Lawrence	33.1%	66.9%	39.8%	60.2%	33.5%	66.5%
Lewis	36.5%	63.5%	34.1%	65.9%	35.6%	64.4%
Lincoln	30.8%	69.2%	36.6%	63.4%	37.4%	62.6%
Loudon	17.5%	82.5%	24.7%	75.3%	25.1%	74.9%
McMinn	27.2%	72.8%	31.2%	68.8%	30.6%	69.4%
McNairy	38.9%	61.1%	31.7%	68.3%	29.7%	70.3%
Macon	37.1%	62.9%	33.8%	66.2%	31.2%	68.8%
Madison	31.9%	68.1%	45.2%	54.8%	41.8%	58.2%
Marion	41.9%	58.1%	39.4%	60.6%	42.3%	57.7%
Marshall	29.3%	70.7%	25.2%	74.8%	23.5%	76.5%
Maury	42.7%	57.3%	39.5%	60.5%	31.7%	68.3%
Meigs	23.4%	76.6%	26.4%	73.6%	15.9%	84.1%
Monroe	42.9%	57.1%	38.4%	61.6%	34.0%	66.0%
Montgomery	40.2%	59.8%	38.0%	62.0%	33.0%	67.0%
Moore	10.5%	89.5%	14.4%	85.6%	14.4%	85.6%
Morgan	12.8%	87.2%	15.7%	84.3%	15.3%	84.7%
Obion	33.2%	66.8%	39.5%	60.5%	39.6%	60.4%
Overton	27.2%	72.8%	29.5%	70.5%	32.5%	67.5%
Perry	18.2%	81.8%	19.1%	80.9%	20.4%	79.6%
Pickett	19.2%	80.8%	21.8%	78.2%	32.9%	67.1%
Polk	20.2%	79.8%	24.6%	75.4%	19.1%	80.9%
Putnam	49.1%	50.9%	44.8%	55.2%	46.3%	53.7%
Rhea	32.1%	67.9%	35.3%	64.7%	33.9%	66.1%
Roane	35.1%	64.9%	36.4%	63.6%	32.2%	67.8%
Robertson	28.6%	71.4%	27.7%	72.3%	28.9%	71.1%
Rutherford	40.8%	59.2%	31.3%	68.7%	35.9%	64.1%
Scott	28.6%	71.4%	32.2%	67.8%	32.5%	67.5%
Sequatchie	33.6%	66.4%	31.1%	68.9%	26.7%	73.3%
Sevier	62.1%	37.9%	65.8%	34.2%	60.4%	39.6%
Shelby	31.6%	68.4%	30.5%	69.5%	19.5%	80.5%
Smith	29.8%	70.2%	35.7%	64.3%	29.7%	70.3%
Stewart	40.6%	59.4%	36.3%	63.7%	22.4%	77.6%
Sullivan	27.3%	72.7%	33.3%	66.7%	30.4%	69.6%
Sumner	33.0%	67.0%	26.3%	73.7%	25.3%	74.7%
Tipton	27.5%	72.5%	25.9%	74.1%	24.9%	75.1%
Trousdale	22.0%	78.0%	19.3%	80.7%	18.0%	82.0%
Unicoi	27.3%	72.7%	27.1%	72.9%	29.2%	70.8%
Union	20.0%	80.0%	23.8%	76.2%	26.1%	73.9%
Van Buren	18.2%	81.8%	26.4%	73.6%	22.2%	77.8%
Warren	42.1%	57.9%	35.9%	64.1%	38.9%	61.1%
Washington	39.5%	60.5%	39.6%	60.4%	38.9%	61.1%
Wayne	21.5%	78.5%	22.7%	77.3%	26.9%	73.1%

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White	28.1%	71.9%	36.3%	63.7%	33.9%	66.1%
Williamson	21.7%	78.3%	28.5%	71.5%	30.0%	70.0%
Wilson	25.6%	74.4%	29.9%	70.1%	31.0%	69.0%
Total	33.3%	66.7%	34.5%	65.5%	29.5%	70.5%
Minimum	10.5%	37.9%	13.7%	34.2%	14.4%	39.6%
Maximum	62.1%	89.5%	65.8%	86.3%	60.4%	85.6%